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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001216

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E.O. 12958: DECL: 07/10/2029

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SUBJECT: (C/NF) BAHRAIN AND TRADE WITH THE UNITED STATES
(C-NE4-00522)

REF: STATE 149503

Classified By: CDA SUSAN ZIADEH. REASON 1.4(C).

(C/NF) The Bahraini business community is convinced that the U.S.-Bahrain FTA is a positive development. Yet they are perplexed by this new mechanism. Continued public diplomacy outreach--by both GOB and USG--can help counter some of the misimpressions about the FTA, what it means, and what it can help accomplish. The business community and labor leaders are seeking guidance from all corners on how to turn the FTA into business deals and to create jobs. Embassy Public Affairs and Commercial sections will work with MEPI-sponsored technical assistance teams and the GOB to address these concerns and help lead the Bahraini business community to successful FTA implementation. Responses in this cable are keyed to questions reftel.

1A. (C/NF) The business community has run with the government's pro-FTA message, and now the GOB is trying to manage what they fear may be unrealistic expectations.

1B. (C/NF) The business community believes it should benefit from the FTA. However, with a few exceptions, business people do not yet understand how to translate this new policy into business deals. They have asked for, and will require, quite a bit of handholding to make implementation a success.

(C/NF) The insurance industry fears outside competition most--ironically so, given that the sector is relatively open already and AIG has a long-standing presence in Bahrain. The textile/garment businesses expect their businesses to grow most as a result of the FTA. Manama's Pakistani-owned textile mill has made a substantial investment to expand capacity to add a fabric finishing process to its repertoire here in Bahrain and has initiated a joint venture by purchasing a defunct factory in the United States. However, garment factories, more likely to be adversely affected by global competition beginning in 2005, have not made similar investments but expect the FTA to take care of their business problems, past and future.

(C/NF) Overall, the sense among the business community is that the FTA offers many potential commercial opportunities, but they do not know how to take advantage of these trade openings.

1C. (C/NF) FTA negotiations have been concluded. However, Post notes that the textile sector was the most vociferous and organized during FTA negotiations. They pushed for duty free access, lenient rules of origin, 10-year tariff preference levels well beyond current levels of trade, and technical assistance to refocus and revive the sunset industry.

1D. (C/NF) The textile sector placed the onus of potential job losses resulting from the end of ATC quotas on the government if negotiators did not secure sufficiently favorable FTA terms to ensure that their sunset industry would thrive. Business owners and general managers, and to a lesser extent the labor union, lobbied the Ministry of Industry, the National Assembly, the Bahrain Chamber of Commerce and Industry, and U.S. and Bahraini negotiators directly to make their case. The GOB listened for two reasons. Textiles are Bahrain's primary non-oil export to the United States. More importantly, the roughly 3000 Bahraini textile workers (out of a total of 12,000 workers in the sector) are hard-to-employ, semi-skilled, conservative, Shi'a women who often support eight family members. These workers face the possibility of massive layoffs within the next year due to global competition. Such layoffs would increase poverty among the already poor and contribute to the potential for social unrest.

(C/NF) Board members of the Bahrain Chamber of Commerce and Industry, the Bahrain Export Development Society, Businessmen's Society and Businesswomen's Society have asked not only their own government, but the USG as well, to help them figure out how to take advantage of FTA. The Bahrain Chamber of Commerce and Industry, the Ministry of Commerce and the Ministry of Finance and National Economy's Economic

Development Board are taking the lead on joint committees to help the business community take the next steps, but it is still too early to see results. There is an explicit need for specific, project-oriented, U.S.-Bahraini B-2-B networking, and there is a hope among Bahraini business that the new AmCham can help facilitate these trade connections. The Embassy has proposed programs, such as International Buyer Programs or Reverse Gold Key-style trade delegations, but the business community's initial interest has not translated into participation, presumably awaiting final verification of the FTA.

E. (C/NF) To the extent that local labor pays attention to economic policy developments, it is also confused about what the FTA will do for workers. Workers regularly confuse FTA with WTO. Many garment workers believe that FTA provides an extension of existing ATC quotas and is a panacea that will create more and better jobs in their sector. There is a real need for intensified public diplomacy outreach to labor leaders and workers.

F. (C/NF) Textile workers expect that FTA will save their jobs and yield higher pay as well. Some workers have told EmbOffs that, now that we have 'signed' an FTA with Bahrain, it is the USG's responsibility to ensure that they have jobs, since the FTA is all about creating jobs for Bahrain. Yet in discussions about the FTA, the inclusion of protective labor clauses is not mentioned. Again, public diplomacy can help clarify what the FTA can and cannot do for workers.

ZIADEH